AKD Securities Limited

TREC Holder & Registered Broker

Pakistan Stock Exchange

Equity Research / Pakistan

REK-216

www.jamapunji.pk

AKD Daily

Tuesday, Mar 07, 2017

Today's Daily

8MFY17 Cement Dispatches Review

According to latest APCMA data release, total cement dispatches during Feb'17 dipped 0.4%YoY to 3.435mn tons where faltering exports (-45.7%YoY to 0.254mn tons in Feb'17) were the major culprit behind weaker dispatches. Though we believe that sharp fall in exports during the month has been a one-off event, exports continue to remain under pressure from rising fuel prices/other input costs and import/anti-dumping duties making it more difficult for Pakistan's exported cement to compete against the indigenous cement. While domestic demand started to pick up (+6.7%YoY to 2.581mn tons in Feb'17) after dismal show in Jan'17 due to heavy rainfall, it failed to reach its recent trend of double digits growth. On a cumulative basis, total dispatches growth reached 6.4%YoY in 8MFY17 vs. 8.7%YoY in 8MFY16 primarily due to relatively slower domestic demand growth of 9.1%YoY in 8MFY17 vs.17.5%YoY in 8MFY16. We anticipate total dispatches growth to improve in upcoming months as construction activity picks up pace on higher PSDP spending in 2HFY17 (40% unutilized federal PSDP at the end of Feb'17) and record level growth in private sector credit related to construction activity (+24.20%YoY). In this backdrop, we maintain our Overweight stance on the cement sector, where our top picks include GWLC (TP: PkR104/share), FCCL (TP: PkR57/share) and MLCF (TP: PkR152/share).

KSE100 - Index	
Current	49,434.89
Previous	49,623.81
Chg.	-0.38%

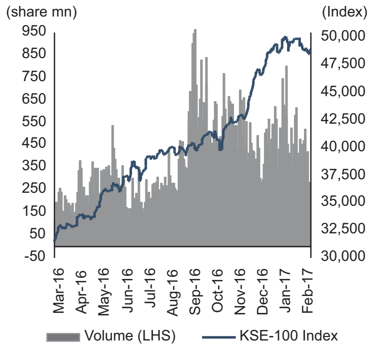
Mkt Cap. (PkRbn/US$bn)	
Current	9,780 / 93.28
Previous	9,815 / 93.61
Chg.	-0.36%

Daily Turnover (mn)	
Current	302.80
Previous	392.03
Chg.	-22.8%

Value Traded (PkRmn/US$mn)	
Current	9,653 / 92.06
Previous	17,272 / 164.73
Chg.	-44.1%

News and Views

- Nepra has put an end to upfront tariff regime, while tariff to the new solar PV power projects in the country would be awarded through competitive bidding.
- Chinese Ambassador has said that CPEC is open and inclusive to all countries and the ports in the region should complement each other. He further said that all projects under CPEC were ahead of the schedule and would be completed well on time.
- Special assistant to the PM on investment and chairman of the BoI, said that the GoP would sympathetically consider PAAPAM's proposal for removal of regulatory duty on 'auto grade steel' in the coming budget.



Sharoon Ahmad

sharoon.ahmad@*akdsecurities.net*

111-253-111 Ext:602

Important disclosures, including investment banking relationships and analyst certification at end of this report. AKD Securities does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision.

AKD Daily

Tuesday, Mar 07, 2017

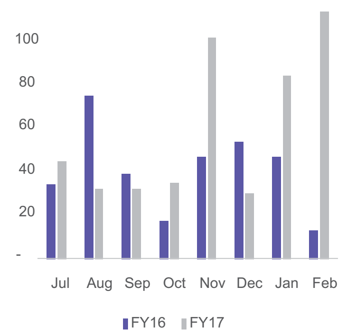
8MFY17 Cement Dispatches Review

According to latest APCMA data release, total cement dispatches during Feb'17 dipped 0.4%YoY to 3.435mn tons where faltering exports (-45.7%YoY to 0.254mn tons in Feb'17) were the major culprit behind weaker dispatches. Though we believe that sharp fall in exports during the month has been a one-off event, exports continue to remain under pressure from rising fuel prices/other input costs and import/anti-dumping duties making it more difficult for Pakistan's exported cement to compete against the indigenous cement. While domestic demand started to pick up (+6.7%YoY to 2.581mn tons in Feb'17) after dismal show in Jan'17 due to heavy rainfall, it failed to reach its recent trend of double digits growth. On a cumulative basis, total dispatches growth reached 6.4%YoY in 8MFY17 vs. 8.7%YoY in 8MFY16 primarily due to relatively slower domestic demand growth of 9.1%YoY in 8MFY17 vs.17.5%YoY in 8MFY16. We anticipate total dispatches growth to improve in upcoming months as construction activity picks up pace on higher PSDP spending in 2HFY17 (40% unutilized federal PSDP at the end of Feb'17) and record level growth in private sector credit related to construction activity (+24.20%YoY). In this backdrop, we maintain our Overweight stance on the cement sector, where our top picks include GWLC (TP: PkR104/share), FCCL (TP: PkR57/share) and MLCF (TP: PkR152/share).

Dispatches review: According to APCMA's latest numbers, total cement dispatches during Feb'17 fell 0.4%YoY to 3.435mn tons as exports experienced a sharp fall of 45.7%YoY/32.5%MoM to 0.254mn tons. While subsiding rainfall helped domestic demand growth to recover (+6.7%YoY/+16.9%MoM to 2.581mn tons in Feb'17), it failed to reach its recent trend of double digits growth. Sharp increase in federal PSDP expenditures (up 8.63x YoY/35.5%MoM to PkR115bn in Feb'17) and record high construction related private sector credit (up 24.0%YoY to PkR162bn) also failed to materially lift domestic demand growth. On cumulative basis, total dispatches growth reached 6.4%YoY in 8MFY17 vs. 8.7%YoY in 8MFY16 primarily due to relatively slower domestic demand growth of 9.1%YoY in 8MFY17 vs.17.5%YoY in 8MFY16.

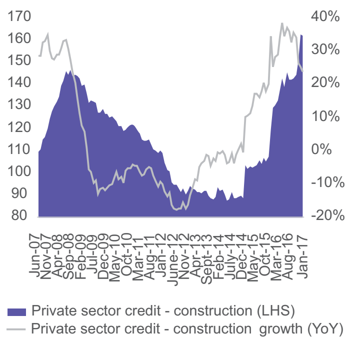
Export slump likely a one-off: Exports fell sharply during the month by 45.7%YoY/32.5%MoM to 0.254mn tons in Feb'17. Plunge in exports during the month is likely a one-off, however, exports continue to remain under pressure due to rising fuel prices/other input costs and import/anti-dumping duties making it more difficult for Pakistan's exported cement to compete against the indigenous cement. On an overall basis, exports during 8MFY17 fell by 8.5%YoY compared with 22.5%YoY decline in 8MFY16, indicating that exports are now settling at a new normal level.

PSDP Monthly Expenditures (PkR bn)



Source: PC & AKD Research

Private sector credit - Construction (PkRbn)



Source: SBP & AKD Research

Demand Outlook: We anticipate domestic demand growth to resume its double digits growth as construction activity is expected to pick pace due to higher PSDP spending in 2HFY17 (40% unutilized federal PSDP at the end of Feb'17) and record level growth in private sector credit related to construction activity (+24.20%YoY in Jan'17). Also, increasing trend of personal housing loans (+22.1%YoY in Jan'17), rapid private infrastructure development (+61.8%YoY in Jan'17) and recent reversal in declining trend of building loans further support our thesis.

Risks: Backed by robust domestic demand growth (+9.1%YoY in 8MFY17), the industry utilization is up 2.7ppt to 84.2% during 8MFY17. Industry utilization is expected to further go up in the upcoming months due to seasonal increase in construction activity during summers together with higher release of unutilized PSDP, resulting in higher demand. Constrained capacities of major players (most operating close to 90% utilization) may potentially create supply pressures until new capacities totaling 26.15mn tpa come online between 2017-19. A delay in expansions can lead the companies to miss out on the high growth period keeping in mind the government's enhanced focus on executing infrastructure development and rise in private housing development. On the other hand, rampant capacity additions are expected to result in utilization levels falling to 65.4% by FY19F from 85.2% in FY16. While it can result in pricing pressures when new capacities stream online, we believe that industry may not need to compete on pricing if domestic demand continues to sustain the double digit growth momentum. In this regard, we estimate utilization levels to reach 88.9% by FY23 based on our average domestic demand growth forecast of 9% (using GDP growth multiplier of 2.44x) and flatter exports. However, we flag significant risk of pricing indiscipline if domestic demand growth falters.

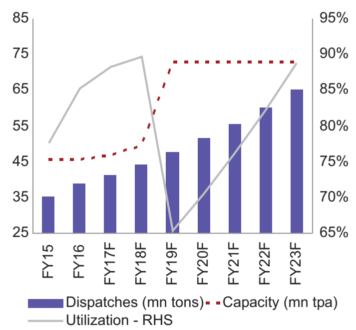
Investment Perspective: Though total dispatches growth has remained slower in recent months, we anticipate domestic demand growth to clock in double digits going forward led by higher infrastructure development in 2HFY17 (federal PSDP expenditures growth: +44.5%YoY in 8MFY17; construction related private sector credit growth: +24.0%YoY in Jan'17; reversal in declining trend of building loans). Additionally, expansion led volumetric growth, expected decline in energy costs from anticipated correction in coal price and addition of energy diversification projects are likely to provide significant lift in earnings. As such, we maintain our Overweight stance on the cement sector, where our top picks include GWLC (TP: PkR104/share), FCCL (TP: PkR57/share) and MLCF (TP: PkR152/share).

Utilization

Utilization	8MFY17	8MFY16	YoY (ppt)
LUCK	88.6%	86.2%	2.4%
DGKC	105.1%	98.3%	6.8%
MLCF	96.2%	90.4%	5.8%
FCCL	85.7%	81.0%	4.7%
CHCC	53.9%	91.1%	-37.3%
PIOC	64.4%	63.4%	1.0%
KOHC	80.9%	81.1%	-0.2%
ACPL	114.5%	106.5%	8.0%
FECTC	97.6%	88.9%	8.6%
North	82.2%	79.7%	2.5%
South	92.7%	88.8%	3.9%
Industry	84.2%	81.4%	2.7%

Source: APCMA & AKD Research

Total Dispatches (mn tons)



Source: APCMA & AKD Research

Industry Dispatches (K tons)

Local	Feb-17	Feb-16	YoY	Jan-17	MoM	8MFY17	8MFY16	YoY
LUCK	498	483	3.2%	466	6.9%	3,711	3,372	10.1%
DGKC	351	337	4.0%	293	19.4%	2,557	2,343	9.1%
MLCF	247	244	1.3%	214	15.1%	1,836	1,665	10.3%
FCCL	265	232	14.4%	234	13.3%	1,849	1,627	13.6%
CHCC	123	71	72.6%	91	34.9%	720	524	37.3%
PIOC	126	114	11.0%	110	14.5%	860	825	4.2%
KOHC	165	171	-3.2%	137	20.4%	1,278	1,241	3.0%
ACPL	136	132	3.0%	139	-1.5%	1,009	883	14.2%
FECTC	55	52	7.2%	40	40.1%	438	382	14.7%
North	2,581	2,429	6.3%	2,130	21.1%	18,641	17,219	8.3%
South	600	553	8.5%	591	1.5%	4,157	3,673	13.2%
Industry	3,181	2,982	6.7%	2,722	16.9%	22,798	20,892	9.1%
Exports	**Feb-17**	**Feb-16**	**YoY**	**Jan-17**	**MoM**	**8MFY17**	**8MFY16**	**YoY**
LUCK	54	133	-59.3%	75	-27.5%	866	1,080	-19.8%
DGKC	35	51	-31.9%	52	-33.5%	401	425	-5.6%
MLCF	25	50	-51.1%	39	-37.0%	326	367	-11.3%
FCCL	6	26	-78.6%	10	-46.1%	112	227	-50.6%
CHCC	18	13	39.6%	21	-11.7%	151	146	3.9%
PIOC	3	4	-23.6%	2	96.4%	11	32	-64.8%
KOHC	7	24	-69.8%	14	-47.6%	98	139	-29.6%
ACPL	28	44	-37.8%	43	-35.9%	361	392	-7.8%
FECTC	9	18	-48.2%	14	-35.3%	95	104	-8.7%
North	163	297	-45.1%	264	-38.0%	2,385	2,458	-3.0%
South	90	170	-46.9%	112	-19.7%	1,156	1,413	-18.2%
Industry	254	467	-45.7%	376	-32.5%	3,541	3,872	-8.5%
Total	**Feb-17**	**Feb-16**	**YoY**	**Jan-17**	**MoM**	**8MFY17**	**8MFY16**	**YoY**
LUCK	552	616	-10.3%	541	2.1%	4,577	4,452	2.8%
DGKC	385	388	-0.7%	346	11.5%	2,958	2,767	6.9%
MLCF	271	294	-7.7%	253	7.1%	2,162	2,032	6.4%
FCCL	271	258	4.9%	245	10.8%	1,961	1,854	5.8%
CHCC	142	85	67.4%	112	26.2%	871	670	30.1%
PIOC	129	118	9.8%	112	15.7%	871	858	1.6%
KOHC	172	194	-11.4%	151	14.2%	1,376	1,379	-0.3%
ACPL	164	177	-7.2%	182	-9.7%	1,371	1,275	7.5%
FECTC	64	69	-6.8%	54	20.4%	533	486	9.7%
North	2,744	2,726	0.7%	2,394	14.6%	21,026	19,677	6.9%
South	691	723	-4.5%	704	-1.9%	5,312	5,087	4.4%
Industry	3,435	3,449	-0.4%	3,098	10.9%	26,339	24,764	6.4%

Source: APCMA & AKD Research

Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

Stock Ratings

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. A rating system which uses similar terms such as Buy, Accumulate, Neutral, Reduce and Sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations. Please see our table below for ratings definitions which are based on price returns.

Rating Definitions

Buy	≥ 20% upside potential
Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential

Analyst Certification of Independence

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

The research analysts, strategists or research associates principally having received compensation responsible for the preparation of this AKDS research report based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Disclosure of Interest Area

AKDS and the authoring analyst do not have any interest in any companies recommended in this research report irrespective of the fact that AKD Securities Limited may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

Regional Disclosures (Outside Pakistan)

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.